

HOW THE ERA OF

DIGITAL ACTIVATION

WILL CHANGE TRAVELER
LOYALTY PROGRAMS

Executive Summary

With access to new technology and data analytics increasing every day, along with rising traveler expectations, travel loyalty programs are undergoing significant changes. Traditional transactional rewards will soon be a thing of the past. For all industries, but especially the travel industry, finding a way to differentiate loyalty programs and offer value to customers will be critical.

The pressure is also increasing for travel suppliers to find new ways to interact with customers in loyalty environments as competition within our industry has not waned at all. Direct customer relationships are going to be fundamental to the future success of all travel suppliers.

And, travelers aren't just looking for more rewards, they are looking for personalized interactions with the travel loyalty programs they choose to participate in and the travel suppliers they choose to patronize. Building systems that can encourage this type of interaction can be very powerful and customers will be more open to sharing data and showing increased loyalty to the programs that give them the experience, products and services they want.

In our always-connected world, the online and physical worlds are becoming merged and customer loyalty demands seamless integration across all channels. This is leading to more social media interaction and integration with travel supplier apps. Underpinning all of this increased technology is the opportunity for airlines and hotels to collect more data and use the analysis of this data to provide better loyalty programs.

In this paper, we'll briefly share the history of both airline and hotel frequent loyalty programs, discuss near-term opportunities, and then examine what future technologies the travel industry should be thinking about.

How Airline & Hotel Frequent Flyer & Guest Programs Have Changed Over Time

For more than 35 years, airline programs like SkyMiles, AAdvantage, and MileagePlus, as well as similar, younger programs in the hotel industry – Marriott Rewards, Starwood Preferred Guest, Hilton Honors, and IHG Rewards Club, for example – have dominated the customer loyalty market. Even though each has had a different approach toward creating customer loyalty and brand devotion, both types of programs have been competing in a highly competitive travel marketplace. While there seem to be common themes at times, the journey has been slightly different for airlines and hotels. Current technologies have changed everything, increasing the level of competitiveness in the overall travel market. Now, every travel supplier, at every step of the Travel Journey, must be aware of “who” their customers are, “why” they make the decisions they do, and “what” will motivate them to return to their respective brand. Additionally, it’s critical to recognize that some traveler rewards programs may not be creating the loyalty that they were originally established for.

So before we explore what comes next for traveler loyalty, let’s take a quick look at the journey airlines and hotels have been on since the early days of their frequent traveler programs, what they’re offering now, and what they might offer in the future.



The Airline Industry Frequent Flyer Program

Before the frequent flyer programs we know today, a frequent flyer in the 1970's on Eastern Airlines, for example, would receive an engraved plaque as recognition of their loyalty at the end of every year. The traveler's loyalty and the reward was calculated from the number of flights taken aboard the airline. A traveler received this plaque with honor and continued to patronize the airline.

Then, 35 years ago, American Airlines created the AAdvantage Program, which was quickly copied by its peers. Passengers accumulated miles, which converted to points to be redeemed for free travel, while airlines accumulated a balance sheet liability to deliver this free travel. Two, three and, even four times the bonus points emerged as airlines battled to win passenger loyalty by creating a desirable currency to be accumulated and then spent within the airline.

As airline alliances evolved (SkyTeam, Oneworld and Star Alliance), mileage accumulation opportunities for travelers became even greater. Then, airline executives quickly realized that their programs needed to be tweaked. Points were given expiration dates, yet expiration dates came and went with use of affinity credit cards and frequency of travel. Even more levels of frequent flyer and loyalty status were created with differentiated levels of points accumulation and other benefits, including benefits outside of an airline's network.

More recently, points accumulation, and subsequent status, are driven by more complex combinations of miles flown, segments flown, dollars spent, and most recent program status. Even Premium Economy seats are no longer guaranteed to be available for even the most loyal passengers as airlines have recently learned that a merchandising opportunity exists to turn these seats into another major ancillary revenue stream. Year over year, a complex combination of metrics must be achieved in order to retain status levels in the following year. To a traveler that has spent a majority of his/her air time on a single airline, missing by a few points feels like the status re-qualification was missed by a mile. It might even appear as if the traveler's loyalty to the airline is no longer acknowledged by the airline. And in a few cases, where a particular airline dominates a hub operation, airlines might even feel as if rewards to its passengers are no longer required. In certain major hub cities, loyalty may be falsely motivated by dominating schedules (Atlanta, Denver, Dallas/Fort Worth as examples). But in other cities/airports (Chicago O'Hare as an example) loyalty could pivot from one airline to another if a frequent flyer program disenfranchises a traveler from its available network of flying opportunity.

So the question on everybody's mind is... what comes next? Is the evolution of the airline frequent flyer program creating loyal passengers, or has it freed passengers to explore "the competition" when considering their next business trip or next family vacation? Are airline loyalty programs of today intended to reward everybody or just a limited few; the few that the airlines deem worthy of rewards? The only thing we know for sure today is that the programs as they exist in 2016 will certainly evolve to something new and different in the years to come.

The Hotel Industry Frequent Guest Program

For almost as long as hotel frequent guest programs have existed, most point accumulations have been based on dollars spent. Was the hotel industry operating in a world that the airlines finally arrived at, a model based on primarily revenue and not frequency? Did the hotel industry perceive greater opportunities for their programs than initially anticipated by the airlines when they created their programs? Or did hotel executives merely find a better model by accident? Whatever the answer to these questions, these programs seem to exist on a better foundation than other travel supplier peers.

Over the next twenty years, sub-brands underneath the major hotel brand operators such as Marriott, Hilton, WHG, Starwood, Hyatt and others have multiplied. Operators soon saw their portfolios offering economy overnight properties all the way through to five-star properties that exemplify luxury, attention to detail, and personalization.

As this evolution continued, corporate headquarters needed to provide reasons to franchisees to “sign-on” with them. Brands that people wanted to stay in, an efficient distribution and reservation system, and a frequent guest program which could assist in creating repeat business. All of these programs offered by the hotel operator, when working efficiently, help to instill loyal traveler behavior so that a guest staying overnight on a business trip would want to return to a major brand with their family for their twice a year family leisure outing. The hotel frequent guest programs provided an opportunity to “earn & burn” points across a wide array of products.

In addition to the now common opportunity for travelers to augment points earnings with affinity credit cards, the hotel operators seem to be a bit more flexible in moderating their programs. Missing an annual status milestone at the end of the year by a night, or a stay count, may not immediately lead to a downgrading of earned status. Participating in an affiliated vacation ownership program can create and even maintain status. Booking a room directly via the hotel operators website can yield greater points accumulation and sometimes lower daily room rates than booking via an alternative distribution channel. And with all this, continued traveler loyalty at higher levels of status also provides for welcome/arrival gifts, room upgrades, free on-property Wi-Fi, and other perks, which at one time cost the guest money. It seems that the hotel industry is rewarding and reinforcing loyal behavior more so today than it ever has in its recent past.

Hotel operators recognize that on every city corner, there are competitive lodging options available. And in every travel scenario there are multiple brands to choose from with a variety of services and price-points available. By virtue of the way hotel operators have designed their rewards programs, loyalty is being created throughout the brand levels, and that loyalty is transportable from stay to stay.

So what comes next? Are the current hotel industry programs creating loyalty greater than other travel supplier loyalty programs? Is there more to come? What improvements, or enhancements are on the horizon for these programs?

What's Next for Traveler Loyalty?

Regardless of the value travel suppliers will place on the consumption of their products now and in the future and how they choose to reward travelers, there are a number of near-term and short-term opportunities which travel suppliers should consider.



Near-Term Opportunities to Enhance Traveler Loyalty in a Highly Competitive Marketplace

It is time to stop talking about actionable insights and personalized services and actually create them! To do this, organizations must look at loyalty technology with a future-flexible approach. Some unforeseen challenges and opportunities will continue to arise, and applying a future-flexible approach allows for faster addition of new technologies.

Today, there are an abundance of startup mobile applications, and even websites, promising personalized booking services, navigation and find-me destination services and offers, and travel feedback and insights forums. While each of these apps/companies serve to fill a gap in the travel value-chain, these companies are intermediaries. In many cases, they do not own any travel products, yet they have found a way to display content and interact with travelers in a way that is appealing and sometimes rewarding to travelers. If these companies find a way to grow their base of travelers using interactions within their apps and user environments, travel suppliers, including firmly entrenched distribution players, may become hostage to these new intermediaries, with traveler loyalty shifting away from airlines, hotels, OTAs, and even rental car agencies. It is entirely conceivable that traveler loyalty could shift away from the travel product itself, and traveler decisions, preferences, and attitudes become shaped by players we are not yet acquainted with.

So, with this complex environment firmly embedded within the industry, how do travel suppliers maintain and grow loyalty?

Regardless of metrics used to measure traveler contribution to a travel supplier's network and the subsequent rewards provided to travelers, customers today are demanding more and more meaningful dialogue from travel suppliers. Actually, it's even broader than this, as consumers are demanding "more" from the companies from which they buy product(s) from. For example, here are some questions that today's travelers are asking:

- *Does the airline I am traveling on today know me and appreciate my business?*
- *Was I greeted by front-desk personnel who knew I stayed at this property just last month?*
- *Has a website configured itself to display content that interests me, because they know who I am and what motivates me?*

TO RESPOND TO MULTIPLE TRAVELER EXPECTATIONS IN THIS ERA OF DIGITAL ACTIVATION, TRAVEL SUPPLIERS MUST:

1. PERFORM A COMPREHENSIVE TECHNOLOGY AUDIT

Consider undergoing a User Experience, User Interaction, or Service Design audit of your traveler engagement paradigms. It is relatively easy, and sometimes safer, to continue to augment existing paradigms with incremental thinking, but this process of change often creates less productive outcomes versus an entire redesign or shift to something new. No one is going to win the travel loyalty race by trying to sell customers the best loyalty points program – it is a competition to best serve a customer’s needs. To truly transform your offerings, you must apply new methods. Consider having an “outsider” audit the processes, engagement, and value-creation of your existing traveler engagement activities to drive truly objective, value-driven recommendations. This audit should be performed by a party who is not interested in selling you a product or a spec-sheet, as they need to be without bias to a specific technology, infrastructure, or outcome.

2. CREATE A SYSTEM FOR DIFFERENTIATING ONE PASSENGER/GUEST FROM ANOTHER

Transition from traditional levels-based traveler segmentation to finally unleash the value of the data you have collected through frequent traveler programs. Competitive differentiation will come from better analytics and will result in improved service for customers. For example, John Frequentbusinesstraveler wants to be greeted by name whenever and wherever he travels and wishes to be rewarded with a seat upgrade on every flight, while he is also fine with forsaking any other rewards and recognition for this upgrade, which is most important to him. Alternatively, Jane Leisuremom wants to make sure that whenever she checks into her favorite hotel brand(s) with kids and husband in tow, there are preprogrammed suggestions for family activities and dining reservations waiting for the family, all based on analyzing past visit requests and activities. These types of personalized communications, derived from analyzing existing traveler data, can create greater loyalty to a brand than imagined.

3. ENGINEER A BRAND-NEW TRAVELER ENGAGEMENT PLAN

Purposefully forget about the big-bang of creating new traveler loyalty, or reward, program experiences all at once. Instead, create a Traveler Engagement Plan to show the expected value(s) and outcome(s) of progressive enhancements. For airline programs in this context, it would seem that year over year, they are de-emphasizing their loyalty programs via details and complexity. Some people might ask if these programs are being motivated and driven by the office of the CFO versus the office of the CMO. Even so, the travel industry remains – and will remain – highly competitive, so airlines, hotel operators, and others offering similar programs must always have the traveler in mind. Consider tackling over 30 years of accumulated data over a reasonable time-frame, extracting bits of value from the data to drive greater value in the travel journey. Use this data to enhance the pre-travel experience first. Since this is the point in the travel journey when a decision to buy is made, work to drive deeper and more meaningful engagement here first. Create a multi-year plan that allows for tried-and-true technologies, as well as emerging applications and infrastructure, to be successfully integrated into your operating processes and programs.

Blockchain: A Longer-Term Opportunity Which Should Not Be Ignored

As a prelude to introducing this opportunity, think about how industries responded to an opportunity called “eCommerce” back in 1995. Back then, it was an overused, ill-defined term which few knew what to do with, and even fewer expected it to become what it is today. Yet the few who did are present-day giants.

Another unexpected opportunity came in 2007, when no one envisioned that 21% of travel revenue-related transactions could be possible from a screen in one’s hands measuring only 3.5 inches in diameter – a smartphone – in 2016. Just like eCommerce, those who engaged early have at one time or another created great business advantages for themselves.

So now, we have another potentially game-changing opportunity sitting right in front of us: Blockchain. Blockchain, only a few years old in name, is the software protocol upon which Bitcoin runs, and many people are mostly thinking about it as an opportunity for the Banking & Financial Services Industry. It is also sometimes considered in the future playbook for information, content, and sharing within the Healthcare Industry.

Could Blockchain provide the data structures, infrastructure, and ease of transacting that could change traveler loyalty programs beyond what they are today? For one thing, there is the possibility to create a common currency with loyalty points that is not just transacted within the industry, but equally transacted outside of the industry. For example, today a traveler might typically spend airline and hotel loyalty rewards on future airline travel and hotel nights. Within a future blockchain environment, a traveler who has accumulated valuable points in an airline program could possibly walk into Tiffany’s and purchase a nice gift, with the transaction from the airline points converted to currency to pay the jeweler, happening as swiftly as a credit card payment happens today. Or consider how the leisure traveler, who has accumulated only a few points, could visit the local grocer and similarly deplete these points for the benefit of receiving various groceries.

For the travel supplier, this blockchain environment creates opportunities to more efficiently and securely transact within its network of partners and outside of this network. For the traveler/consumer, they may become more loyal to the travel supplier(s) which lead this new opportunity. Creating simplicity for both the traveler and travel supplier could be the key to redefining the world of loyalty.

WHAT NEXT FOR BLOCKCHAIN AND YOUR BUSINESS?

1. Consider discussions with partners to measure interest and desire to create something new.
2. With existing resources or outside parties, consider a Travel Blockchain Hackathon to stir up new ideas around processes and value creation that could exist in the near future.
3. If you foresee further exploration of a travel blockchain future, consider working with the few blockchain “experts” who exist to create a plan which determines how to best leverage what we know and can do with blockchain technology today.

And if blockchain as associated with loyalty is not enough, consider how blockchain might help the travel industry reduce credit card fraud, which was estimated to be \$1B last year. Or think about how blockchain could be the future of digital passports, ID’s, and related identification verification processes. Almost anything could be plausible with blockchain, but we will only learn what’s possible if we continue to experiment and push boundaries in our daily operations.

Conclusion: Loyalty Programs May Become the Last Battleground for Travel Supplier Differentiation

Technology, mobile device adaptation, traveler demands, and new thinking about how to remain competitive in the travel industry will drive travel suppliers to move away from transactional points-based loyalty programs to more flexible customer engagement models. In accordance with this major change, airlines, hotels, rental car agencies, and travel distributors must ensure their programs are able to support the technological innovations necessary to successfully deliver the loyalty programs of the future, where an improved loyalty program can act as a defense against the competition and deliver better customer engagement. It all makes sense when you consider that:

- *Most airline networks overlap to a point where nearly any airline – and its partner network – looks like the next*
- *On every street corner in most cities and towns, there are competitive hotel brand choices*
- *A Ford or Toyota rental car from one agency is the same as the Ford or Toyota from another*
- *One online travel agency looks and delivers almost the same product as its direct competitor*

With these similarities afflicting each vertical within the Travel & Hospitality industry, loyalty programs may become the last battleground for competing to shift market share. A dialogue amongst sales, marketing, finance, and IT executives must occur, and input from travelers, including business, leisure, and group travel segments, must be injected into these conversations. This can help create a program that is focused on the type of traveler engagement that the travel supplier is seeking, which is a model that drives revenue, optimizes expenses, and simultaneously enhances traveler satisfaction.

Indeed, by the time airline loyalty programs have had their 40-year anniversary, we expect these programs to be different than they are today. And, without a doubt, we can expect the same from hotel, rental car, and OTA loyalty programs.



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